Annual Report **2011**

Raising the Standard
of Regulation in Canada

MFDA™

Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

MFDA Vision

Raising the standard of regulation in Canada for the protection of investors through commitment to collaboration, staff excellence and regulatory best practices.

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Joint Message from the Chair and President

Roderick M. McLeod, Q.C.
Chair, MFDA Board of Directors

Larry M. Waite
President & Chief Executive Officer

This Annual Report highlights the MFDA's strategic, policy and operational accomplishments in fiscal 2010–2011.

Under the leadership of senior management and the MFDA Board of Directors, and in consultation with Members, the provincial securities commissions, industry associations and the investing public, the MFDA met several critical challenges in 2010–2011. The MFDA was able to meet these challenges while at the same time maintaining focus on its core regulatory mandate and strategic vision. Highlights of the past year include:

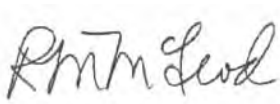
- After substantial consultation, the MFDA Board endorsed a proposal by the MFDA Investor Protection Corporation to increase its investor protection fund from $30 million to $50 million over the next 7 years;
- In light of the prospect of a national securities commission, the MFDA Board reviewed the organization's role in the Canadian regulatory landscape and concluded that the MFDA, in its current form and in pursuit of its current regulatory mandate, continues to protect investors and serve the public interest;
- Starting with the 2011 AGM, the MFDA will implement a revised proxy solicitation policy and use an independent proxy solicitation firm to administer proxy voting at Members' meetings; and
- It is anticipated that several governance-related and other amendments to MFDA By-law No. 1 will be tabled at a Special Meeting of Members in 2012 in accordance with the MFDA's revised proxy solicitation policy.

The MFDA also conducted its second Member Survey during the year, seeking Member feedback on key aspects of MFDA operations, including compliance, enforcement and policy development. The survey gave us a better sense of Members' views on these key areas of MFDA operations. Overall, Members were satisfied (in excess of 90%) with MFDA policy development, compliance and enforcement efforts and various MFDA communications. This is not surprising, as Members have been very engaged during the various comment periods and through the MFDA's Policy Advisory Committee, and Member input at the early stages of the policy development process has been invaluable. Furthermore, based on feedback received at Member Regulation Forums during the year, the MFDA was able to develop information workshops tailored to Members' needs. As always, the MFDA values both Member and public input and we are committed to making improvements wherever we can.

We are now at the end of our Strategic Plan for 2009–2011. MFDA management and the Board are in the midst of developing a new set of strategic priorities and initiatives that will guide us through the next three years, bearing in mind ongoing changes in the regulatory environment and how they may affect the future of the organization. Members' views on the strategic direction of the MFDA, solicited through the Member Survey process and other means, will be instrumental as we develop a roadmap for 2012–2014.

In closing, we acknowledge the invaluable contributions made by Ed Legzdins and Kevin Regan, outgoing Industry Directors, over the past six years and appreciate the wise counsel and continuing support of our Board of Directors.

Finally, we would like to thank the staff and management for their dedication and commitment. We are confident that, with their support, the MFDA will continue to make a difference as we strive to increase the level of investor protection through rule-making, compliance and regulatory oversight.



Roderick M. McLeod, Q.C.
Chair, MFDA Board of Directors

Larry M. Waite
President & Chief Executive Officer

MFDA Membership Information

The MFDA is Canada's national self-regulatory organization responsible for regulating the activities and operations of 132 mutual fund dealer firms ("Members") and their approximately 73,000 salespersons ("Approved Persons"). These Members account for approximately $314 billion of the $656 billion of client assets under administration in the Canadian mutual fund industry (all figures as of June 30, 2011).

The four principal categories of MFDA Membership are:

Level 1 Member	**Level 2 Member**	**Level 3 Member**	**Level 4 Member**
An introducing dealer that is not a Level 2, 3 or 4 Member.	A dealer that does not hold client cash, securities or other property (i.e. the Member does not operate a trust account and conducts business in client name only).	A dealer that does not hold client securities or other property except client cash in a trust account.	Includes all other Members (including a Member that acts as a carrying dealer).

The MFDA presently operates in Québec pursuant to a Cooperative Agreement with the Autorité des marchés financiers and the Chambre de la sécurité financière. Accordingly, the information set out in the tables below does not reflect Member activities based in the province of Québec.

Members by Category *(as at June 30)*

	2007	2008	2009	2010	**2011**
Level 1	Nil	Nil	Nil	Nil	**Nil**
Level 2	54	53	46	46	**42**
Level 3	63	64	59	55	**54**
Level 4	45	42	40	38	**36**

Membership Profile *(as at June 30)*

	2007	2008	2009	2010	**2011**
Number of Members	162	159	145	139	**132**
Number of Approved Persons	71,086	73,455	74,768	73,291	**73,289**
Assets Under Administration of all Members	$ 310 B	$ 304 B	$ 252 B	$ 271 B	**$ 314 B**
Total Industry Assets Under Administration	$ 707 B	$ 700 B	$ 547 B	$ 592 B	**$ 656 B**

Location of Member Head Offices *(as at June 30)*

	2007	2008	2009	2010	**2011**
Ontario	111	106	96	93	**89**
British Columbia	15	15	14	12	**11**
Québec	9	10	10	12	**13**
Alberta	8	9	8	7	**6**
Manitoba	7	7	7	6	**6**
Saskatchewan	6	6	4	4	**3**
Nova Scotia	3	3	3	3	**2**
New Brunswick	3	3	3	2	**2**
Total	162	159	145	139	**132**

Assets Under Administration per Head Office *(as at June 30)*

	2007	2008	2009	2010	**2011**
Ontario	$ 220.3 B	$ 218.7 B	$ 175.8 B	$ 190.2 B	**$ 227.0 B**
Manitoba	$ 55.7 B	$ 52.4 B	$ 45.7 B	$ 48.9 B	**$ 54.8 B**
British Columbia	$ 16.4 B	$ 16.5 B	$ 13.6 B	$ 14.8 B	**$ 17.7 B**
Québec*	$ 7.8 B	$ 7.2 B	$ 9.9 B	$ 10.5 B	**$ 11.9 B**
Saskatchewan	$ 5.0 B	$ 4.6 B	$ 3.4 B	$ 3.5 B	**$ 0.3 B**
Alberta	$ 3.9 B	$ 3.8 B	$ 3.1 B	$ 2.5 B	**$ 2.3 B**
New Brunswick	$ 0.6 B	$ 0.5 B	$ 0.4 B	$ 0.2 B	**$ 0.1 B**
Nova Scotia	$ 0.2 B	$ 0.2 B	$ 0.1 B	$ 0.1 B	**$ 0.2 B**
Total (Rounded)	$ 310 B	$ 304 B	$ 252 B	$ 271 B	**$ 314 B**

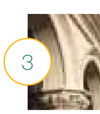
** The figures reflect assets outside of Québec for Members with a head office in Québec.*

Members by Assets Under Administration

	2007	2008	2009	2010	**2011**
$100 Million and Under	65	69	70	65	**56**
$101 Million to $500 Million	51	45	36	35	**36**
$501 Million to $1 Billion	11	11	12	11	**11**
Over $1 Billion	35	34	27	28	**29**
Total	162	159	145	139	**132**

Members by Firm Size

	2007	2008	2009	2010	**2011**
10 Approved Persons or Fewer	67	64	59	57	**53**
11 to 100 Approved Persons	52	50	46	42	**38**
101 to 500 Approved Persons	21	23	18	17	**19**
501 to 1,000 Approved Persons	7	7	7	7	**5**
Over 1,000 Approved Persons	15	15	15	16	**17**
Total	162	159	145	139	**132**



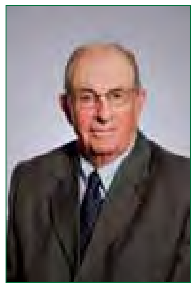
Corporate Governance

The MFDA Board of Directors is comprised of six Public Directors, six Industry Directors and the President and CEO of the MFDA. Information with respect to the Directors, their terms of office, compensation, attendance at meetings and the composition of each Committee is listed below. Further biographical information on current Directors can be found at www.mfda.ca.

Board of Directors

As of June 30, 2011, the composition of the Board was as follows:

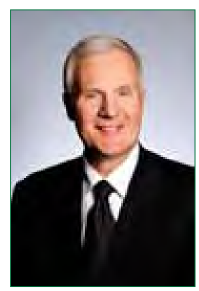
Public Directors



Roderick McLeod, Q.C. (2) (3)
(Chair)
Lawyer, Part-time Counsel
(Markham, Ontario)
Term Expires: AGM 2012

Dawn Russell, Q.C. (3) (4)
President & Vice-Chancellor
St. Thomas University
(Fredericton, New Brunswick)
Term Expires: AGM 2012

Sandy (D.W.) Grant (1)
Corporate Director
(Orillia, Ontario)
Term Expires: AGM 2011



Doug Thomson, FCA (1)
Corporate Director
(Edmonton, Alberta)
Term Expires: AGM 2011

Lea Hansen, CFA (4)
Corporate Director
(Toronto, Ontario)
Term Expires: AGM 2012

Janet Woodruff, CA (2)
Corporate Director
(Vancouver, British Columbia)
Term Expires: AGM 2011

Ex Officio Director

Larry Waite
President & CEO
Mutual Fund Dealers
Association of Canada

Industry Directors

Sonny Goldstein, CFP (4)
President
Goldstein Financial Investments Inc.
(Toronto, Ontario)
Term Expires: AGM 2011

Ed Legzdins, CA (2) (3)
(Vice-Chair)
Senior Vice-President and Managing Director
International BMO Financial Group
(Toronto, Ontario)
Term Expires: AGM 2011

Steven Donald, CA (1)
President
Assante Wealth Management (Canada) Ltd.
(Toronto, Ontario)
Term Expires: AGM 2012

Kevin Regan, FCA, CFP (4)
President & Chairman of the Board
Investors Group Financial Services Inc.
(Winnipeg, Manitoba)
Term Expires: AGM 2011

Stephen Geist, CA, CFP (4)
President
CIBC Asset Management Inc.
& CIBC Securities Inc.
(Toronto, Ontario)
Term Expires: AGM 2012

Robert Sellars, CA, CFA (2) (3) (4)
Executive Vice-President & CFO
Dundee Capital Markets Inc.
& Dundee Securities Ltd.
(Toronto, Ontario)
Term Expires: AGM 2012

(1) Member of Audit & Finance Committee
(2) Member of Executive Committee
(3) Member of Governance Committee
(4) Member of Regulatory Issues Committee

Director Compensation

Each Public Director on the MFDA Board receives an annual retainer of $15,000. The Chair of each Committee receives a retainer of $2,500 per year, with the exception of the Chair of the Audit & Finance Committee who receives $4,000 per year. Public Directors also receive a fee of $1,500 for attending each Board meeting and $1,500 for each Committee meeting in excess of 2 hours (the attendance fee for Committee meetings of less than 2 hours is $1,000 per meeting). Out-of-town Public Directors who attend meetings in person receive a supplementary travel fee of $1,000 per meeting. The annual retainer for a Public Director who serves as Chair of the Board is set by the Board of Directors and reviewed annually. The current annual retainer for the Chair of the Board is $50,000.

Industry Directors are not compensated for their participation on the MFDA Board or its Committees, however all Directors are reimbursed for related travel and out-of-pocket expenses.

Board and Committee Meeting Attendance

A total of 23 meetings were held during the fiscal year ended June 30, 2011, including five Board meetings and one Annual General and Special Meeting of Members. Below is a breakdown of attendance by Director:

Director	Board	Audit & Finance	Executive	Governance	Regulatory Issues
Steven Donald *(joined December 1, 2010)*	4 of 4	2 of 2			
Stephen Geist	5 of 5				2 of 4
Peter Glaab *(stepped down December 1, 2010)*	2 of 2	1 of 1			
Sonny Goldstein	5 of 5				4 of 4
Sandy Grant	4 of 5	3 of 3			
Lea Hansen	5 of 5				4 of 4
Ed Legzdins	3 of 5		1 of 1	9 of 9	
Rod McLeod	4 of 5		1 of 1	8 of 9	
Kevin Regan	5 of 5				3 of 4
Dawn Russell	5 of 5			9 of 9	4 of 4
Robert Sellars	5 of 5		1 of 1	9 of 9	4 of 4
Doug Thomson	4 of 5	3 of 3			
Larry Waite	5 of 5	3 of 3	1 of 1	9 of 9	4 of 4
Janet Woodruff	5 of 5		1 of 1		

Amendments to MFDA By-law No. 1

In January 2011, a hearing panel of the British Columbia Securities Commission directed that certain amendments to MFDA By-law No. 1 should not be implemented until a meeting of Members, conducted in accordance with the panel's directions, can be held to sanction the amendments. Accordingly, the MFDA's Governance Committee reviewed all aspects of the proposed amendments and made recommendations to the Board of Directors in September 2011 as to which amendments should be enacted and approval sought at a future meeting of Members. At the time of printing, it was anticipated that the amendments will, subject to the public comment process, be tabled at a Special Meeting of Members in the first half of 2012.

Strategic Planning

The MFDA's Strategic Plan for 2009–2011 emphasized four core strategic goals:

- Enhancing consultation with the industry;
- Exploring further ways to collaborate with other regulators;
- Continuing to pursue staff excellence; and
- Ensuring that the MFDA continues to adopt regulatory best practices.

During the course of the past three years, senior management regularly evaluated the extent to which these four goals were being achieved by reviewing the status of each of the Plan's key initiatives and then reporting its findings to the Board. Many of the key initiatives identified in 2008 have been completed with positive results, while others are of an ongoing nature and will continue to be implemented under the 2012–2014 Strategic Plan. Some of the more salient accomplishments arising out of the 2009–2011 Strategic Plan include:

Four key strategic and operational goals have been identified. If we achieve these goals, we will be successful in achieving our overall vision.

- Extended comment period for Rule proposals from 30 days to a minimum of 60 to 90 days.
- Solicited preliminary comment on key policy initiatives through discussion papers, surveys, and meetings with industry representatives.
- Posted Policy Advisory Committee meeting materials and summaries of meetings on the Members' Only Site so that Members are aware of upcoming and current policy initiatives.
- Issued Member Regulation Notices and Guides on areas of regulatory concern, such as leverage and suitability.
- Increased the use of focused compliance examinations and follow-up in situations involving significant and material supervisory deficiencies.
- Implemented the use of Cautionary Letters to address minor disciplinary matters.
- Enhanced the Electronic Filing System ("EFS").
- Developed the Members' Only Site to provide information to Members regarding upcoming events, policy initiatives, the role of different MFDA departments, and contact information at the MFDA, as well as to allow Members to update their Membership data online and view their risk scores.
- Enhanced semi-annual Member Regulation Forums with workshops and sessions dedicated to specific topics.
- Established informal information sharing arrangements with insurance regulators, the Canadian Securities Administrators ("CSA") and the Investment Industry Regulatory Organization of Canada ("IIROC").
- Held meetings with service providers to ensure systems used by Members permit compliance with MFDA Rules and proposed Rules going forward.
- Enhanced new employee orientation programs and conducted employee survey on the quality and relevance of the orientation program.
- Coordinated with other regulators to eliminate duplication of disciplinary hearings.
- Provided Annual Report to Members on-line.

Management and the Board are currently developing a new set of strategic priorities and initiatives to guide the MFDA through the next three years. Members' views on the MFDA's strategic direction were solicited through the Member Survey in June 2011 and will be instrumental in the development of the 2012–2014 Strategic Plan.

Regional Councils

The MFDA has four Regional Councils:

Atlantic Region	Nova Scotia New Brunswick Prince Edward Island Newfoundland and Labrador
Central Region	Ontario Québec
Pacific Region	British Columbia Yukon Territory
Prairie Region	Alberta Saskatchewan Manitoba Northwest Territories Nunavut

The Regional Councils provide pools of individuals from which 3-person hearing panels are assigned to preside over disciplinary proceedings commenced by the MFDA against Members and Approved Persons. There are three types of Regional Council members:

(i) elected industry representatives (partners, officers, directors, employees or agents of Members resident in the Region);

(ii) appointed industry representatives (persons with current or previous securities industry experience, but who are not required to be a partner, officer, director, employee or agent of a Member); and

(iii) appointed public representatives (Chairs of hearing panels, generally retired judges but may also be lawyers with extensive administrative law experience).

The 2-year terms of all current elected industry representatives expire in June 2012 and the MFDA will conduct a nomination and election process in Spring 2012 to reconstitute the Regional Councils.

MFDA Regulatory Operations

MFDA regulatory operations are organized according to the following departments: Compliance, Enforcement, Policy and Membership Services.

Compliance

The MFDA Compliance Department is responsible for monitoring Members' adherence to MFDA requirements. The department is comprised of two groups: Sales Compliance and Financial Compliance. The Compliance Department is also responsible for reviewing and approving Member resignation and reorganization requests, reviewing new membership applications, and assisting in policy and enforcement initiatives as required.

Sales Compliance

Third Compliance Examination Cycle

MFDA Members are subject to an examination within a three-year cycle. The MFDA's third cycle of compliance examinations commenced in January 2009 and staff has performed 112 head office examinations and 229 branch examinations through to June 30, 2011. The following is a breakdown of regular compliance examinations by province as at June 30, 2011.

	Head Office	Branch	Total
Ontario	73	129	**202**
British Columbia	11	33	**44**
Alberta	6	23	**29**
New Brunswick	2	13	**15**
Nova Scotia	2	12	**14**
Manitoba	6	7	**13**
Saskatchewan	3	8	**11**
Québec	9	–	**9**
Newfoundland and Labrador	–	3	**3**
Prince Edward Island	–	1	**1**
Total	112	229	**341**

Sales Compliance also performs targeted and follow-up examinations when necessary.

Looking Forward

Financial Compliance

In the next fiscal year, Financial Compliance will be focused on transitioning all Members over to the new Financial Questionnaire and Report (Form 1) based on International Financial Reporting Standards ("IFRS").

Given the volatility of the markets, Financial Compliance continues to monitor Member capital investments and profitability to assess the financial condition of the membership.

Sales Compliance

With the MFDA's third round sales examinations cycle to be completed by the end of 2011, Sales Compliance is conducting a detailed review of the examination process including risk modeling, scheduling methodology and examination procedures. We will be making improvements to the examination process to improve efficiency and will continue to enhance our focus on high risk areas.

Enforcement

The Enforcement Department is responsible for addressing non-compliance with regulatory requirements by Members and Approved Persons. The department is comprised of four groups: Case Assessment, Investigations, Litigation and Enforcement Policy.

2010–2011 Activity

The number of complaints and other intake matters received by Case Assessment and by Members, which had increased last year due to complaints arising from the significant market decline in 2008–2009, decreased to the level experienced in previous years.

Staff commenced 34 formal proceedings, all of which related to high-priority risk issues. This included six cases regarding supervision of leveraging and investment recommendations and related matters. This is an increase over previous years, and is part of an overall Enforcement and Compliance response to such issues that has resulted in an overall increase in the level of compliant supervision by Members. 35 hearings were concluded in the year resulting in fines of $137,500 against Members and $2,820,400 against Approved Persons. Staff recovered a total of $373,000 in respect of fines levied in fiscal 2010–2011 and previous years.

Staff issued 66 Warning Letters and 164 Cautionary Letters in cases involving violations of a minor nature that did not warrant formal disciplinary proceedings.

As part of our efforts to proactively address non-compliance, Enforcement staff conducted its first education workshop for Members regarding the Member Event Tracking System ("METS") filing procedures. This workshop was designed to ensure that the MFDA receives timely and informative reporting from Members on potential violations of MFDA requirements. More workshops, including those on complaint handling and supervisory investigations, will take place in 2011–2012.

To assist the public in having easy access to MFDA discipline information, we concluded arrangements with the CSA to include information about MFDA hearings against Members and Approved Persons on the CSA Disciplined Persons List public website.

Staff also implemented a process that allows Members to obtain information about the enforcement history of current and prospective Approved Persons, to assist Members in their supervisory and hiring due diligence activities.

In addition, Staff concluded informal arrangements with various members of the CSA to streamline and increase the effectiveness of communications, including arrangements regarding enforcement coordination, registration issues and the communication of Enforcement case information.

Looking Forward

MFDA Enforcement Priorities

The MFDA reviews supervision by the Member and its supervisory personnel in all cases it opens. This is an important part of our enforcement and compliance strategy that focuses on addressing Members' efforts in proactively avoiding non-compliant situations by implementing effective supervisory regimes.

In February 2010, MFDA Policy 3 came into effect. It provides further elaboration on the existing MFDA rule requiring Members to deal with complaints fairly and promptly. MFDA Enforcement continues to place a priority on enforcing these important regulatory requirements. Much of the work is done by our Case Assessment group, which works proactively with Members on a case-by-case basis, to ensure complaints are properly addressed and to assist Members in understanding these requirements generally. Cases where there is an ongoing breach are escalated to our Investigations group.

The Enforcement Department's main priority will continue to be the suitability of investment and leveraging recommendations regarding mutual funds, exempt securities and any other product sold by Members. Other violations that are key priorities include securities and other unapproved business activity conducted outside the Member and abusive sales practices such as theft, fraud, personal financial dealings, misrepresentations and unauthorized and discretionary trading.

We will be formalizing our internal practices regarding the priority that we place on cases that involve harm to seniors and clients from other vulnerable groups. This is a particularly important area on which a number of securities regulators are placing an emphasis. It is hoped that these efforts will bring about an increased awareness of this issue among Members and Approved Persons.

The Enforcement Department's main priority will continue to be the suitability of investment and leveraging recommendations.

Violation Type in Enforcement Actions Commenced: July 1, 2010 to June 30, 2011

The following tables show the number of violations alleged in the 34 proceedings commenced in 2010–2011. Most proceedings involve more than one alleged violation.

Approved Persons – Breakdown by Violation

Violation	Total Number
Failure to Cooperate	12
Personal Financial Dealings	11
Outside Business Activities/Dual Occupation	9
Policy and Procedure	8
Forgery/Fraud/Theft/Misappropriation/Misapplication	6
Conflict of Interest	5
Conduct Unbecoming	4
Falsification/Misrepresentation	4
Supervision	3
Business Standards	2
Referral Arrangements	2
Suitability – Leveraging	2
Unauthorized/Discretionary Trading	2
Acting Outside Registration Status	1
Books, Records and Client Reporting	1
Suitability – Investments	1
Total	73

Members – Breakdown by Violation

Violation	Total Number
Policy and Procedure	4
Supervision	4
KYC Documentation Deficiency	3
Books, Records and Client Reporting	2
Reporting Violations	1
Security Regulator's Order	1
Unauthorized/Discretionary Trading	1
Total	16

Policy

The principal role of the Policy Department is to monitor the effectiveness of the MFDA By-laws, Rules and Policies; recommend changes where appropriate; draft new or amended By-laws, Rules and Policies; and draft Notices and Bulletins for Members to assist them with the interpretation and application of MFDA requirements. In addition, the department provides consulting, legal, research and drafting support to the other departments of the MFDA.

Consultations with Industry

In the Fall of 2010 and Spring of 2011, MFDA staff held six Member Regulation Forum meetings in Vancouver, Calgary and Toronto. MFDA staff updated Members on various policy initiatives, including proposed Rule and Policy amendments and comments received from Members and other stakeholders; Approved Person due diligence; transitioning to IFRS; guidance on exempt market dealer registration; guidance on conducting a reasonable supervisory investigation and implementing a client complaint handling process; and recent enforcement cases.

By-law Amendments

MFDA By-law No. 1 – Section 24.A.5
(Ombudservice – Member to Provide Written Material to Client)

Section 24.A.5 of By-law No. 1 was repealed effective December 3, 2010, as amended Policy No. 3 *Complaint Handling, Supervisory Investigations and Internal Discipline,* which became effective on February 1, 2010, now includes this requirement. Under Policy No. 3, Members must, on account opening, provide clients with a copy of the Client Complaint Information Form, as approved by the MFDA staff, which describes complaint escalation options, including complaining to the Ombudsman for Banking Services and Investments.

MFDA By-law No. 1 – Section 35
(No Actions Against the Corporation)

Amendments to section 35 of MFDA By-law No. 1 regarding the MFDA Investor Protection Corporation ("MFDA IPC") received all requisite approvals and became effective on December 3, 2010. The amendments are intended to ensure that the MFDA IPC and its directors, officers and personnel are adequately protected in the discharge of their investor protection mandate from legal actions and to provide for the terms of the relationship between the MFDA, MFDA IPC and Members.

Rule Amendments

MFDA Rule 1.1.6
(Introducing and Carrying Arrangement)

Amendments to Rule 1.1.6 became effective on December 3, 2010. The amendments allow Members greater flexibility in how they meet their disclosure obligations as introducing and carrying dealers, while continuing to ensure that clients are informed about the role and identity of each dealer. The amendments also reduce duplication by allowing carrying dealers to rely on written trade confirmation statements sent by mutual fund managers.

MFDA Rules 2.2 (Client Accounts),
2.8.3 (Rates of Return) and 5.3 (Client Reporting)

Amendments to Rules 2.2, 2.8.3, and 5.3, drafted to address certain issues under the Client Relationship Model project, received all requisite approvals in 2010 and are subject to transition periods.

In 2010–2011, MFDA staff held six Member Regulation Forums in Vancouver, Calgary and Toronto.

Further amendments to Rule 2.2 were proposed to clarify that the obligation for Members and Approved Persons to ensure that each order accepted or recommendation made for any account of a client is suitable includes recommendations to borrow to invest ("leverage"). The proposed amendments were published for comment on July 8, 2011 and the comment period expired on October 6, 2011.

MFDA Rules 2.4.4 (Transaction Fees or Charges)
and 5.1 (Requirement for Records)

New Rule 2.4.4 and amendments to Rule 5.1 became effective on February 18, 2011. Rule 2.4.4 requires that, prior to the acceptance of an order, the Member informs the client of any sales charge, service charge, or any other fees or charges to be deducted in respect of the transaction. Conforming changes were also made to Rule 5.1(b).

MFDA Rule 3.1.1
(Capital – Minimum Requirements)

Amendments to Rule 3.1.1 became effective on January 21, 2011. Rule 3.1.1 was amended to harmonize MFDA minimum capital requirements for Members that are licensed in multiple registration categories with those under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103").

MFDA Rule 3.3.2
(Segregation of Client Property – Cash)

Proposed amendments to Rule 3.3.2 will remove the commingling and related restrictions from the Rule, and permit Members discretion as to whether they will pay interest on client cash held in trust, subject to a disclosure requirement. The proposed amendments received Member approval on December 1, 2010, and are awaiting approval of the Recognizing Regulators.

Consequential Amendments Resulting from NI 31-103

Consequential amendments to MFDA Rules resulting from NI 31-103, which came into force on September 28, 2009, were made to MFDA Rules 1.2 (Individual Qualifications), 2.5 (Minimum Standards of Supervision) and 5.6 (Record Retention). The amendments became effective on December 3, 2010.

Form Amendments

Amendments to the MFDA Financial Questionnaire and Report (Form 1) intended to align MFDA financial reporting requirements with IFRS, except as modified by the MFDA, became effective on January 21, 2011. Further housekeeping amendments to the Auditor's Report sections of Form 1 became effective on March 23, 2011. Amendments incorporating the definition of "market value" into Form 1 were proposed in order to ensure consistency by MFDA Members in the valuation of their securities. These proposed amendments are currently awaiting approval of the Recognizing Regulators and Members.

The principal role of the Policy Department is to monitor the effectiveness of MFDA By-laws, Rules and Policies.

Policy Amendments

MFDA Policy No. 2
Minimum Standards for Account Supervision

Amendments to Policy No. 2 received all requisite approvals in 2010 and are subject to a transition period of one year (expiring on December 3, 2011) to facilitate compliance with the new requirements. The amendments include revisions to the branch and head office trade review criteria/thresholds; amendments to the list of mandatory Know-Your-Client ("KYC") information that must be collected on account opening; and revisions with respect to updating and maintaining evidence of material changes to client KYC information.

Further amendments to Policy No. 2 were proposed to clarify that the suitability of leverage must be assessed having regard to the client's investment knowledge, risk tolerance, age, time horizon, income, and net worth, and set out minimum criteria that would require further supervisory review and investigation. The proposed amendments were published for comment on July 8, 2011 and the comment period expired on October 6, 2011.

Amendments to MFDA Rules of Procedure

Amendments to the Rules of Procedure became effective on July 16, 2010. The amendments fall into three categories:

(i) minor housekeeping amendments;
(ii) enhancements to the current Rules of Procedure, based on proceedings that have been conducted to date; and
(iii) new Rules of Procedure governing applications for interim relief and the appointment of monitors to manage the affairs of Members.

Member Regulation Notices

Notices set out MFDA staff's interpretation of MFDA requirements. The following Notices were issued during the period July 1, 2010 to June 30, 2011 (please visit www.mfda.ca for more information).

Title	Number	Date Issued
Approved Person Transfers	MR Notice #0079	March 4, 2011
MFDA Rules 2.4.4 (Transaction Fees or Charges) and 5.1(b)(iv) (Requirement for Records)	MR Notice #0078	February 22, 2011
Approved Person Proficiency Requirements	MR Notice #0077	December 7, 2010
Performance Reporting	MR Notice #0076	December 3, 2010
Relationship Disclosure	MR Notice #0075	December 3, 2010

Looking Forward

Branch Supervision

Current MFDA Rules prescribe requirements for an on-site branch manager based on the number of Approved Persons operating out of a sales location. The MFDA is considering adopting a more principles-based approach that would give Members flexibility in developing alternative structures, provided the Member's supervisory system results in an adequate level of supervision of its sales locations.

Outside Business Activities

In response to requests for additional guidance and clarification from Members and Approved Persons regarding obligations with respect to outside business activities, MFDA staff is currently drafting amendments to Rule 1.2.1(c) (Dual Occupations) and a new Policy. The proposed amendments will replace the term "dual occupation" with "outside business activity" to reflect the fact that "outside business activity" is the term commonly used by the industry. The Rule amendments and Policy will also include clarification of the types of activities that would be considered outside business activities, and will remind Approved Persons of their disclosure obligations to both their Member and to clients.

Chief Compliance Officer Course

MFDA staff is of the view that the current examinations prescribed under NI 31-103 do not provide the necessary information and specific training required for the Chief Compliance Officer ("CCO") role. One of the action items for the 2009–2011 MFDA Strategic Plan is the consideration of a CCO course/examination for MFDA Members. MFDA staff issued a Request for Proposal to the industry education service providers, which sets out the key components for a CCO course/examination to provide the necessary knowledge for the CCO role.

Back-Office Service Providers

In the course of performing compliance examinations, MFDA staff has identified a number of issues relating to the use of third party back-office service providers by MFDA Members. In addition, staff has been consistently asked by Members for assistance in addressing issues arising with respect to third party back-office service providers. In response, MFDA staff has issued a consultation paper to solicit feedback from Members, third party back-office service providers, and other industry stakeholders to identify regulatory concerns with the use of third party back-office service providers and solutions to address these concerns to improve overall compliance within the membership. The comment period expired on September 30, 2011.

Membership Services

The Communications and Membership Services group is active in maintaining Member files and responding to inquiries from Members, the public and the media. It is also responsible for maintaining and updating the MFDA website and facilitating Member events.

During the period July 1, 2010 to June 30, 2011, the department responded to approximately 930 inquiries by telephone and e-mail. The majority of inquiries continue to come from MFDA Members and Approved Persons with respect to such topics as registration of Approved Person, and questions regarding our Rules, latest Bulletins and Notices. During fiscal 2010–2011, the MFDA converted its Financial Questionnaire and Report (Form 1) Electronic Filing System ("EFS") to comply with the new International Financial Reporting Standards. As a result, there were numerous enquiries from Members with respect to the new EFS system.

Management Discussion and Analysis

The following Management Discussion and Analysis of the financial condition and results of operations should be read in conjunction with the audited financial statements and the accompanying notes of the Mutual Fund Dealers Association of Canada ("MFDA") for the fiscal year ended June 30, 2011.

Perspective on FY 2011 Revenues and Expenses

Understanding FY 2011 revenues and expenses requires a look back to the measures taken to restrict the MFDA's budgetary requirement for FY 2010. This perspective allows for a better understanding of the year over year increases in both revenues and expenses for FY 2011.

Recovery from the market meltdown that occurred in 2008–2009 was still underway for MFDA Members throughout FY 2010. Consequently, when formulating the FY 2010 budget, several cost cutting initiatives were enacted in order to lessen the impact of the MFDA's budgetary requirements on the membership. These cost cutting measures reduced salaries and benefits expenses, Board and Senior Executive remuneration, travel and training expenditures, and resulted in the deferral of various technology related projects. Additionally, the Board of Directors authorized the use of $1,000,000 of the MFDA's unrestricted net assets to be applied against the FY 2010 budget in order to mitigate an increase in Member fees.

Although these measures were successful in reducing the MFDA's budgetary requirement for FY 2010, they were not sustainable in the longer term without impacting staff retention rates, the quality of the delivery of MFDA's regulatory mandate, and the organization's financial stability through the depletion of its unrestricted net assets. This necessitated a return to normal operating conditions for FY 2011.

Other factors contributing to the year over year increase in expenses for FY 2011 include an expanded Calgary office, increased investment in information systems technology, and the effects of the Harmonized Sales Tax ("HST") that took effect July 1, 2010. These additional factors are further explained in greater detail below.

Revenues

For FY 2011, the MFDA had revenues from operations of $29,834,603 (compared to $25,366,717 for FY 2010). The principal source of revenue for the MFDA is Membership fees, which are assessed against Member firms and are calculated to provide sufficient funding to meet the MFDA's yearly budgeted expenses.

Membership fees are calculated based upon a formula that takes into account the amount of assets under administration ("AUA") that each Member firm has under its control. Each year, on or before April 15th, MFDA Members are required to report their AUA figures as at March 31st. AUA figures represent AUA from operations in all provinces other than Québec and specifically exclude cash, GICs, limited partnerships, and segregated funds. A Member's reported AUA at March 31st for the current year is then added to the previous year's reported AUA and an average of the two years is calculated for billing purposes.

The MFDA uses a five-tiered AUA rate schedule as the basis for its billing. Members are billed a set fee amount per million dollars of AUA based upon this schedule with the fee rates set to provide sufficient funding for the next fiscal year. The MFDA fee payable by a Member is calculated by matching its average AUA figure to this tiered fee schedule. For some Members, a minimum fee applies. Each Member's fees for the year are divided into four installments payable on a quarterly basis.

Membership fees for FY 2011 totaled $28,824,436. Other sources of revenue for the MFDA include the following:

- Hearing cost recoveries of $749,511 are costs related to hearings held by the MFDA. In December 2008, the MFDA Board of Directors approved the recovery of these costs through the use of fine monies collected in the MFDA's Discretionary Fund.
- Enforcement recoveries of $109,014 are costs awarded by the MFDA Regional Council hearing panels at the conclusion of MFDA disciplinary hearings or settlements and which have been collected by the MFDA.
- Investment income of $84,792 is derived from the investment of MFDA operating cash balances in the CIBC Imperial Money Market Pooled Fund and investment in Canadian federal treasury bills. Investment returns for FY 2010 were negatively impacted by the low short term interest rate environment experienced throughout the year. Investments are made with preservation of capital, liquidity, and low risk as the primary goals.
- Administration recoveries of $60,000 are costs recovered from the MFDA Investor Protection Corporation for administrative services provided by MFDA staff.
- Late filing fees of $6,850 are fees levied against Members that have missed information filing deadlines.

Expenses

As would be expected for a service organization, staff-related expenses form the largest expense for the MFDA, accounting for 73% of operating expenses. For FY 2011, $1.2 million of the year over year increase in salary and benefits expenses represents the reinstatement of normal compensation adjustments for staff that were suspended in FY 2010, full year salaries for employees who joined the MFDA mid-year in FY 2010, other various increases in payroll and benefits expenses, as well as two additional staff positions that were budgeted for the 2011 fiscal year. The remainder of the increase relates to increases in post-retirement benefit costs.

Overhead expenses which include rent and utilities, general office expenses, computer software and maintenance, telecommunications costs, insurance, and bank charges increased 11.8% for FY 2011. The majority of the increase was focused in two areas. Premises costs increased due to the effects of the HST which became effective on July 1, 2010 and impacted office space leasing costs in Toronto and Vancouver. The Calgary office, expanded to accommodate the need for more staff resources, also increased premises cost when the lease for additional office space came into effect on November 1, 2010. Increased costs for data lines and information technology hosting services as well as additional licensing costs for various new information systems such as the newly rewritten Electronic Filing System, accounted for most of the balance of the year over year increase in overhead expenses.

Legal expenses remained higher than normal for the MFDA in FY 2011 as the BCSC hearing was concluded during the year. The bulk of legal expenses for this matter were incurred in FY 2010. Legal expenses were also impacted by experiencing a greater need for translation services than in the previous year. Barring any unforeseen circumstances, legal expenses are anticipated to return to normal with $240,000 budgeted for legal expenses for FY 2012.

As mentioned, budget cuts for FY 2010 impacted staff training as annual training events for compliance, enforcement and management staff were pared back. This training was reinstated for FY 2012 with a corresponding increase in education costs.

Hearing panel expenses are recovered through the use of fine monies accumulated in the MFDA's Discretionary Fund. Consequently, the MFDA's revenues over expenses position is unaffected by hearing panel expenses. Hearing panel expenses were $749,511 for FY 2011 (as compared to $438,511 for FY 2010). The year over year increase in hearing cost recoveries is the result of experiencing a greater number of contested hearings throughout the year with an associated increase in the duration of hearings.

The MFDA's four Regional Councils were reconstituted in the Spring of 2010. This necessitated hearings training for new Regional Council members who serve as hearing panelists for MFDA hearings. This training accounts for the year over year increase in Regional Council costs for FY 2011.

Excess of Revenue over Expenses

The MFDA ended FY 2011 with an excess of revenues over expenses of $1,121,872 (compared to a deficiency of $949,811 for FY 2010). The MFDA budgeted a surplus of $488,385 for FY 2011. The $633,487 variance in the budgeted surplus was created by revenues being $425,509 higher than budgeted and expenses being $207,978 lower than budgeted.

Capital Expenditures

Capital spending increased in 2011 ($851,940 in FY 2011 as compared to $100,182 in FY 2010). Due to cost cutting measures implemented for FY 2010, many capital spending projects were deferred until the following fiscal year. Capital spending in FY 2011 consisted mainly of the rewrite of the Electronic Filing System to adapt to changes in its underlying technologies and the new International Financial Reporting Standards ("IFRS"). Other capital spending for FY 2011 included the updating of IT infrastructure and staff equipment that had reached the end of its useful life, and the construction of additional office space in the Calgary office.

MFDA Discretionary Fund

This Fund is an internally restricted fund established by the MFDA Board of Directors to receive monies from the collection of enforcement fines and the surrender of profits imposed by order of an MFDA hearing panel. For FY 2011 the fund received fines of $373,000 (compared to $370,500 for FY 2010) and investment revenue of $9,326 (compared to $5,303 for FY 2010). The Fund reimbursed hearing costs of $749,511 to the MFDA Operating Fund in FY 2011 (compared to $438,511 for FY 2010) and ended the year with a balance of $541,590 at June 30, 2011 (compared to $909,085 at June 30, 2010).

MFDA Investor Protection Corporation

The MFDA bills and collects assessments by the MFDA Investor Protection Corporation ("IPC"). These amounts flow through the Statements of Financial Position as an asset to reflect the assessment to be received from Members. An offsetting liability to the IPC accounts for future remittances due from the MFDA. For the period from July 1, 2010 to June 30, 2011 the MFDA billed $2,568,232 to its Members on behalf of the IPC. As at June 30, 2011 no IPC assessments remained due to the IPC.

Accrued Employee Benefit Plans Liability

The MFDA has an accrued employee benefit plans liability of $3,822,100. This amount is comprised of a $1,627,100 registered pension plan liability and a $2,195,000 liability with respect to the post-retirement benefits plan. The post-retirement benefits plan is an unfunded obligation. Retiree benefits costs will be paid by the organization as incurred. To date the MFDA has no retirees. Based upon the actuarial valuation performed at July 1, 2009, funding for the registered pension plan is planned to occur at a rate of approximately $1,300,000 annually. The next actuarial valuation is scheduled for July 1, 2012.

Outlook for Fiscal 2012

FY 2012 expenses are budgeted to be $30.3 million, which represents a 5.5% increase over operating expenses of $28,712,731 experienced for FY 2011. 90% of the year over year increase in operating expenses relates to increases in salaries and benefits expenses. This aligns with the fact that employee costs account for 73% of operating expenses. No additional staff positions are budgeted for FY 2012 with the staff count expected to remain at 170 employees. The year-over-year increase in employee costs expected for FY 2012 relates to anticipated salary merit increases, full year salaries for positions vacant through part of FY 2011, and cost increases pertaining to current and post-retirement benefits.

Increases in premises cost account for most of the remainder of the increase in operating costs for FY 2012. The expansion of the Calgary office that took place in November 2010 will now have a full year impact on rental costs for that office space throughout FY 2012. As well, rental rate escalators in MFDA's Toronto office lease will take effect on July 1, 2011 and May 1, 2012, thereby increasing premises cost for the Toronto office. Lastly, upon performing an appropriate market analysis, the Vancouver office space lease that is expiring on October 31, 2011 has been renewed at a higher rate. This higher rental rate is reflective of the increase in commercial space rental rates in the Vancouver market over the past five years.

Capital spending will decrease substantially for FY 2012 and will amount to $352,000 ($851,940 for FY 2011). Capital spending will consist primarily of technology hardware upgrades, renovations to the Toronto and Vancouver offices, and investment in the Member Event Tracking System ("METS") and the Members Only section of the MFDA's website.

In the past, the MFDA has subsidized Member fees through the use of its unrestricted net asset fund. The effect of these subsidies, totaling $5.45 million since 2006, was to lower member fees and mitigate fee increases. It remains the intention of the MFDA to maintain its unrestricted net asset fund at a fiscally prudent level of 25% of yearly operating expenses which represents three months of operating costs. At June 30, 2011 the unrestricted net asset fund stood at $3,806,248. This represents 50.1% of its target or 1.5 months of FY 2012 operating costs. As previously communicated to the membership, the MFDA has budgeted for a $690,000 partial replenishment of the unrestricted net asset fund in the FY 2012 budget.

With respect to the adoption of new accounting standards, the MFDA as a not-for-profit organization ("NPO"), has chosen not to adopt International Financial Reporting Standards ("IFRS"). Adoption of IFRS would have been voluntary for the MFDA given its NPO status. Upon consideration of the alternatives, the MFDA concluded that the costs associated with adopting IFRS outweighed the benefits of providing IFRS compliant financial statements. Instead, the MFDA will adopt the accounting framework for NPO's that was released in December 2010 by the Canadian Institute of Chartered Accountants ("CICA"). This framework continues with the existing 4400 series of standards for NPO's supplemented by the Accounting Standards for Private Enterprises. Although early adoption of this accounting framework is permitted, MFDA plans to adopt it for the first mandatory year it would take effect which will be the fiscal year beginning July 1, 2012. The full extent of the impact is still being determined.

Finally, 2011 represents the final year of the MFDA's current Strategic Plan covering the period from 2009–2011. The current Strategic Plan focused on the goals of Industry Consultation, Regulatory Collaboration, Staff Excellence, and Regulatory Best Practices. A new Strategic Plan for the organization will be developed in the fall of 2011 and will cover the years 2012–2014.

Management's Responsibility for Financial Reporting

The accompanying financial statements and all other information contained in this Annual Report are the responsibility of MFDA management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and necessarily include some amounts based on the estimates and judgments of management.

In discharging its responsibilities for the integrity and reliability of the financial statements, management maintains and relies upon a system of internal controls. These internal controls are designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The MFDA also maintains formalized policies and procedures and an organizational structure that segregates duties. The MFDA employs standards and procedures for hiring employees who are required to abide by a business code of conduct and receive ongoing training regarding the proper execution of their duties. Mechanisms also exist that enable reporting to the Audit & Finance Committee of any perceived unethical behavior by employees.

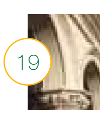
In order to provide their opinion on the MFDA's financial statements, Deloitte & Touche LLP reviews the MFDA's system of internal controls and conducts such tests and other audit procedures that they consider appropriate. The auditors also meet in-camera with the Audit & Finance Committee, without management present, to discuss the results of their work. The independence of the auditors as well as the effectiveness of their work is assessed by the Audit & Finance Committee annually.

The Audit & Finance Committee reviews the effectiveness of the company's financial reporting and internal control systems, any significant financial reporting issues, the presentation and impact of significant risks, and key estimates and judgments of management that may be material for financial reporting purposes. Additionally, the Audit & Finance Committee meets periodically with MFDA management and the auditors, and reports to the Board of Directors thereon. The Audit & Finance Committee also reviews the annual financial statements and recommends them for approval by the Board of Directors.

The accompanying financial statements have been audited by the auditors who are engaged by the Board of Directors on the recommendation of the Audit & Finance Committee. The appointment of the auditor is ratified at the Annual General Meeting of MFDA Members.

Larry M. Waite
President & Chief Executive Officer

Paul Reid
Director, Finance & Administration



Financial Statements

Independent Auditor's Report

To the Members of the
Mutual Fund Dealers Association of Canada

We have audited the accompanying financial statements of the Mutual Fund Dealers Association of Canada, which comprise the statements of financial position as at June 30, 2011 and 2010, and the statements of revenue and expenses, changes in fund balances and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Mutual Fund Dealers Association of Canada as at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

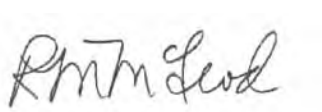
Chartered Accountants
Licensed Public Accountants
September 28, 2011
Toronto, Ontario

Statements of Financial Position as at June 30

	2011	2010
	$	$
ASSETS		
Current		
Cash – Operating fund (Note 3)	**1,845,079**	1,359,296
Cash – Discretionary fund (Note 3)	**24,356**	166,880
Investments – Operating fund (Note 3)	**4,703,536**	4,152,746
Investments – Discretionary fund (Note 3)	**819,417**	955,404
Membership fees billed in advance (Note 4)	**7,517,343**	7,251,145
MFDA Investor Protection Corporation assessments (Note 5)	**–**	58,109
Costs recoverable from MFDA Investor Protection Corporation (Note 7)	**16,969**	15,878
Other membership receivables	**7,221**	5,340
Prepaid expenses and other assets	**354,134**	336,896
	15,288,055	14,301,694
Capital assets (Note 6)	**1,953,681**	1,608,767
Employee benefit plan asset (Note 8)	**1,944,900**	1,643,300
	19,186,636	17,553,761
LIABILITIES AND FUND BALANCE		
Current		
Accounts payable and accrued liabilities	**1,542,425**	1,287,682
Unearned membership fees (Note 4)	**7,517,592**	7,254,525
Membership application deposits	**3,000**	8,000
Due to MFDA Investor Protection Corporation (Note 5)	**–**	58,109
Obligations under capital lease (Note 10)	**58,811**	62,474
	9,121,828	8,670,790
Accrued employee benefit plans liability (Note 8)	**3,822,100**	3,332,900
Obligations under capital lease (Note 10)	**103,634**	165,374
	13,047,562	12,169,064
FUND BALANCES		
Operating Fund		
Invested in capital assets	**1,791,236**	1,380,919
Unrestricted net assets	**3,806,248**	3,094,693
	5,597,484	4,475,612
Discretionary Fund (Note 2)	**541,590**	909,085
	6,139,074	5,384,697
	19,186,636	17,553,761

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board



Roderick M. McLeod, Q.C.
Director

Larry M. Waite
Director

Statements of Revenues and Expenses for the years ended June 30

	2011	2010
	$	$
OPERATING FUND		
Revenues		
Membership fees	**28,824,436**	24,724,881
Hearing cost recoveries from Discretionary Fund (Note 14)	**749,511**	438,511
Enforcement recoveries	**109,014**	100,476
Investment income (Note 11)	**84,792**	37,749
Administration recoveries (Note 7)	**60,000**	60,000
Late filing fees	**6,850**	5,100
Total revenues	**29,834,603**	25,366,717
Expenses		
Salaries and benefits (Note 8)	**21,025,088**	19,136,913
Rent and utilities	**2,568,286**	2,389,144
Travel	**796,156**	744,404
Hearing panels	**749,511**	438,511
Computer software and maintenance	**636,460**	434,050
Office and general	**582,633**	551,217
Amortization of capital assets	**507,026**	544,115
Legal	**443,101**	844,878
Board of Directors – fees	**258,259**	312,763
Board of Directors – expenses	**56,240**	79,262
Consultants	**258,131**	182,268
Education	**217,099**	134,313
Meetings, seminars and communication	**206,399**	173,781
Telecommunications	**153,762**	142,643
Insurance	**114,181**	112,947
Bank charges and interest	**57,209**	49,664
Audit fees	**50,178**	44,772
Regional Councils	**33,012**	883
Total expenses	**28,712,731**	26,316,528
Excess (deficiency) of revenues over expenses	**1,121,872**	(949,811)
DISCRETIONARY FUND (Note 2)		
Revenues		
Fines	**373,000**	370,500
Investment income (Note 11)	**9,326**	5,303
Total revenues	**382,326**	375,803
Expenses		
Hearing cost reimbursement to Operating Fund (Note 14)	**749,511**	438,511
Investment management fees	**310**	300
Total expenses	**749,821**	438,811
Deficiency of revenues over expenses	**(367,495)**	(63,008)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Fund Balances for the years ended June 30

	2011				2010
	Operating Fund				
	Invested in Capital Assets	Unrestricted Net Assets	Discretionary Fund	Total	Total
	$	$	$	$	$
FUND BALANCES					
Balance, beginning of year	**1,380,919**	**3,094,693**	**909,085**	**5,384,697**	6,397,516
Excess (deficiency) of revenues over expenses	**–**	**1,121,872**	**(367,495)**	**754,377**	(1,012,819)
Purchase of capital assets	**851,940**	**(851,940)**	**–**	**–**	–
Principal payments on capital lease	**65,403**	**(65,403)**	**–**	**–**	–
Amortization of capital assets	**(507,026)**	**507,026**	**–**	**–**	–
Balance, end of year	**1,791,236**	**3,806,248**	**541,590**	**6,139,074**	5,384,697

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows for the years ended June 30

	2011	2010
	$	$
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses – Operating Fund	**1,121,872**	(949,811)
Deficiency of revenue over expenses – Discretionary Fund	**(367,495)**	(63,008)
Items not involving cash		
Amortization of capital assets	**507,026**	544,115
	1,261,403	(468,704)
Changes in non-cash working capital		
Membership fees billed in advance	**(266,198)**	(1,029,084)
Other membership receivables	**(1,881)**	(615)
MFDA Investor Protection Corporation assessments	**58,109**	(43,009)
Prepaid expenses and other assets	**(17,238)**	(42,694)
Accounts payable and accrued liabilities	**254,743**	(133,110)
Membership application deposits	**(5,000)**	(8,000)
Unearned membership fees	**263,067**	1,031,714
Due to MFDA Investor Protection Corporation	**(58,109)**	43,009
Costs recovered from MFDA Investor Protection Corporation	**(1,091)**	(2,264)
	1,487,805	(652,757)
Employee benefit plan asset	**(301,600)**	(372,000)
Accrued employee benefit plans liability	**489,200**	136,700
	1,675,405	(888,057)
INVESTING ACTIVITIES		
(Purchase)/Sale of investments, net	**(414,803)**	1,365,353
Purchase of capital assets	**(851,940)**	(100,182)
Principal payments on capital lease	**(65,403)**	(60,435)
	(1,332,146)	1,204,736
Increase in cash	**343,259**	316,679
Cash, beginning of year	**1,526,176**	1,209,497
Cash, end of year	**1,869,435**	1,526,176
Cash – Operating fund	**1,845,079**	1,359,296
Cash – Discretionary fund	**24,356**	166,880
Cash, end of year	**1,869,435**	1,526,176

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements
(June 30, 2011 and June 30, 2010)

1. Nature of the organization

The Mutual Fund Dealers Association of Canada ("MFDA") is the national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA does not provide trade association activities for its Members. Its Members are firms that have been registered by provincial securities commissions to carry on business as mutual fund dealers. The MFDA regulates the activities of its Members and the approximately 73,000 Approved Persons sponsored by them. The MFDA's regulatory activities include developing rules and policies to govern the business conduct and operations of its Members and their Approved Persons, monitoring compliance with these requirements and applicable securities laws, and enforcing them through disciplinary proceedings conducted before impartial and independent MFDA hearing panels.

The MFDA was incorporated as a not-for-profit corporation on June 19, 1998 under Part II of the Canada Corporations Act and has been formally recognized as a self-regulatory organization by a number of provincial securities commissions in Canada.

As of June 30, 2011, the MFDA had 132 Members (2010 – 139 Members).

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because the precise determination of many assets and liabilities such as accrued liabilities and accrued employee benefits plans liability is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made using judgment. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Fund accounting

The MFDA uses the deferral method of accounting for not-for-profit organizations in the preparation of its financial statements consisting of two funds, namely the Operating Fund and the Discretionary Fund.

The Operating Fund accounts for the regular business and activities of the MFDA.

The Discretionary Fund is an internally restricted fund established by the MFDA Board of Directors. The Discretionary Fund receives monies from the collection of enforcement fines and the surrender of profits imposed by order of a MFDA hearing panel. Disbursements from the Discretionary Fund are currently restricted to the funding of third party expenses of the MFDA Enforcement hearing panels, payments to the MFDA Investor Protection Corporation, the investor protection fund, and payments for special projects that are in the public interest and beneficial to the public and/or Canadian capital markets, as determined by the MFDA Board of Directors.

Membership application deposits

A non-refundable deposit is required on all membership applications. The deposit is applied to membership fees when the applicant is accepted for membership.

Membership fees

Membership fees are calculated annually using a defined formula based on each Members' assets under administration, invoiced to Members on a quarterly basis and recorded as revenue on a monthly prorated basis.

Membership fees billed in advance are reflected on the balance sheet as unearned membership fees.

Late filing fees

Members that do not submit the financial statements required by MFDA rules within the specified due dates are charged late filing fees. The late filing fees are billed and recorded as revenue on a monthly basis.

Capital assets

Capital assets are recorded at cost and are amortized on the following basis:

Computers and software development	Straight-line method over 3 years
Office furniture and equipment	Straight-line method over 10 years
Leasehold improvements	Straight-line method over the term of the lease
Equipment under capital lease	Straight-line method over the term of the lease

Employee benefit plans

The MFDA accrues its obligations under employee benefit plans and the related costs, net of plan assets. The MFDA has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality or government debt instruments with cash flows that match the timing and amount of expected benefit payments.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 18 years (2010 – 18 years) for the registered pension plan, 6 years (2010 – 7 years) for the supplementary executive retirement plan and 16 years (2010 – 17 years) for other post-retirement benefits. The introduction of a standard termination assumption in 2010 resulted in a decline in the average remaining service period of the active employees for the registered pension plan.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts. The MFDA accounts for cash maintained in investment accounts as part of investments.

Investments

The MFDA invests in short-term investments in a pooled money market fund and in federal treasury bills or notes with short to medium-term maturities.

Investments in the money market fund are classified as available for sale ("AFS"). The investments in the market fund are carried at fair value as reported by the fund manager. Unrealized gains and losses resulting from the difference between fair value and cost are recorded in the Operating Fund balance until realized or until the asset is other than temporarily impaired, at which time they are recorded in the Statement of Revenues and Expenses.

Investments in Canadian federal treasury bills or notes are classified as Held for Trading ("HFT") and are recorded at fair value with any changes being recorded in the Statement of Revenues and Expenses. As these instruments are short term in nature, cost approximates fair value. Any gains and losses are recognized in the Statement of Revenues and Expenses in the period that the asset is sold or becomes permanently impaired. Interest income from the bonds is accrued daily and recorded under investment income in the Statement of Revenues and Expenses.

Other assets and liabilities

Current assets other than cash and investments are classified as loans and receivables and are carried at amortized cost, which approximates fair value due to their short terms to maturity.

Accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost, which approximates fair value due to their short terms to maturity.

Provision for income taxes

The MFDA is a not-for-profit organization within the meaning of the *Income Tax Act* (Canada). Accordingly, there is no provision for income taxes in these financial statements.

Future accounting changes

In December 2010, the CICA issued a new accounting framework applicable to Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Not-for-Profit Organizations will have to choose between International Financial Reporting Standards ("IFRS") and Canadian accounting standards for Not-for-Profit Organizations. Early adoption of these standards is permitted. The MFDA currently plans to adopt the Canadian accounting standards for Not-for-Profit Organizations for its fiscal year beginning July 1, 2012. The impact of transitioning to these new standards has not been determined at this time.

3. Cash and investments

Cash of $1,869,435 (2010 – $1,526,176) includes an amount of $24,356 (2010 – $166,880), which is restricted in use for the Discretionary Fund.

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amount of $1,689,309 (2010 – $1,153,440) for the Operating Fund and in Federal T-Bills and cash awaiting investment in the amount of $3,014,227 (2010 – $2,999,306) for the Operating Fund.

The MFDA has investments in the CIBC Imperial Money Market Pooled Fund in the amount of $819,417 (2010 – $955,404) for the Discretionary Fund.

The following table lists the investment holdings and their carrying and fair values as at June 30, 2011.

Investment	Par value ($) / Number of Units	Designation	Credit Rating	Carrying Value	Fair Value
				$	$
Operating Fund Money Market CIBC Imperial Money Market Pooled Fund	168,622	Available for sale	N/A	1,689,309	1,689,309
Sub-total money market				1,689,309	1,689,309
Operating Fund Treasury Bills and Notes Canada Government, 1.08%, Mat. Feb 16 2012	1,000,000	Held for trading	AAA	992,600	992,600
Canada Government, 1.23%, Mat. Sep 29 2011	500,000	Held for trading	AAA	495,325	495,325
Canada Government, 1.30%, Mat. Dec 22 2011	1,500,000	Held for trading	AAA	1,483,725	1,483,725
Sub-total T-Bills				2,971,650	2,971,650
Cash on hand for T-bills investment	N/A	N/A	N/A	42,577	42,577
Sub-total operating fund				4,703,536	4,703,536
Discretionary Fund Money Market CIBC Imperial Money Market Pooled Fund	81,792	Available for sale	N/A	819,417	819,417
Sub-total discretionary fund				819,417	819,417
Total investments				5,522,953	5,522,953

4. Membership fees billed in advance

The membership fees billed in advance represent billings issued in June for the quarterly membership fees for the period of July 1 to September 30, 2011 due July 15, 2011.

5. MFDA Investor Protection Corporation assessments

The MFDA Investor Protection Corporation ("IPC") commenced coverage of customer accounts on July 1, 2005. Member assessments are calculated annually on a defined formula based on each Member's assets under administration, and are invoiced to Members on a quarterly basis. The MFDA invoices Members on behalf of the IPC and is liable to the IPC for the total of these Member assessments.

6. Capital assets

			2011
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Computers and software development	**3,705,205**	**3,009,165**	**696,040**
Office furniture and equipment	**1,417,364**	**916,774**	**500,590**
Leasehold improvements	**2,188,235**	**1,579,582**	**608,653**
Equipment under capital lease	**358,487**	**210,089**	**148,398**
	7,669,291	**5,715,610**	**1,953,681**

			2010
	Cost	Accumulated Amortization	Net Book Value
	$	$	$
Computers and software development	3,105,223	2,900,829	204,394
Office furniture and equipment	1,358,495	798,603	559,892
Leasehold improvements	2,049,289	1,420,962	628,327
Equipment under capital lease	358,487	142,333	216,154
	6,871,494	5,262,727	1,608,767

7. Costs recoverable from MFDA Investor Protection Corporation

Pursuant to a support agreement, the MFDA provides the IPC administrative, corporate, secretarial and other support during the year to allow the IPC to operate without its own staff. The support costs charged to the IPC for the year amounted to $60,000 (2010 – $60,000) plus applicable taxes. This amount is billed on a monthly basis but reimbursed on a quarterly basis. At June 30, 2011, there was an outstanding amount of $16,969 (2010 – $15,878) with respect to this support agreement.

8. Employee benefit plans

MFDA has two defined benefit pension plans for eligible employees, being a registered plan ("RPP") and a supplementary executive retirement plan ("SERP"). The purpose of the SERP is to supplement the registered plan for designated executive employees. As well, the MFDA has post-retirement benefits ("PRB") that include health care and dental coverage for retired employees. These post-retirement benefits terminate at the age of 75.

The funded status of the MFDA's benefit plans reconciled to the amounts recorded in the financial statements at June 30 is as follows:

				2011	2010
	RPP	SERP	PRB	Total	Total
	$	$	$	$	$
Fair value of assets	**7,901,200**	**4,574,200**	**–**	**12,475,400**	9,338,000
Accrued benefit obligation	**10,265,400**	**2,981,400**	**2,200,200**	**15,447,000**	12,333,300
Funded status (deficit)	**(2,364,200)**	**1,592,800**	**(2,200,200)**	**(2,971,600)**	(2,995,300)
Unamortized transitional (assets)/obligation	**(3,900)**	**9,800**	**5,600**	**11,500**	14,300
Unamortized net actuarial (gain)/loss	**741,000**	**342,300**	**(400)**	**1,082,900**	1,291,400
Accrued benefit plan asset (liability)	**(1,627,100)***	**1,944,900**	**(2,195,000)***	**(1,877,200)**	(1,689,600)

**The total of $(3,822,100) represents accrued employee benefit plans liability as of June 30, 2011 (2010 – $(3,332,900)).*

The RPP plan assets are invested in the Sceptre Pooled Investment Fund – Balanced Section. RPP pension benefits transferred out during fiscal 2011 totaled $128,356 (2010 – $39,154).

The total SERP assets of $4,574,200 (2010 – $3,624,800) consist of $2,369,396 (2010 – $1,757,065) which is invested in a balanced portfolio held with RBC Wealth Management and $2,204,804 (2010 – $1,867,735) that is held in a non-interest bearing retirement compensation arrangement account at the Canada Revenue Agency, as required by law.

The most recent actuarial valuation was completed as of July 1, 2009. The next required actuarial valuation will be as of July 1, 2012.

The net benefit expense, included in the salaries and benefit expense in the statements of revenues and expenses, and the annual contributions are as follows:

				2011	2010
	RPP	SERP	PRB	Total	Total
	$	$	$	$	$
Net benefit expense	**1,387,700**	**323,700**	**477,700**	**2,189,100**	1,606,800
Contributions					
Employer	**1,376,200**	**625,300**	**–**	**2,001,500**	1,842,100
Employee	**279,000**	**–**	**–**	**279,000**	237,500

The significant actuarial assumptions adopted in measuring the MFDA's accrued benefit obligations are as follows:

	2011	2010
	%	%
Weighted average discount rate for pensions	**5.50**	5.75
Weighted average discount rate for post-retirement benefits	**5.50**	5.75
Weighted expected rate of return on plan assets for pensions	**6.00**	7.00
Weighted expected rate of return on plan assets for post-retirement benefits	**7.00**	7.00
Weighted average rate of compensation increase	**4.25**	4.50

The post-retirement benefits reflect a 8% to 13% annual rate of increase in the cost of medical benefits for 2012. These rates are assumed to decrease gradually to 5% by 2022 and remain at that level thereafter. The dental benefits are assumed to increase at an annual rate of 3.5%.

Plan assets by category as at June 30 are as follows:

	2011		2010	
	RPP	**SERP**	RPP	SERP
	%	**%**	%	%
Short term notes	**5.5**	**–**	6.8	–
Bonds	**34.4**	**18.2**	36.2	19.5
Canadian equities	**31.7**	**20.6**	32.3	18.1
Foreign equities	**28.4**	**13.0**	24.7	10.9
Deposit with CRA	**–**	**48.2**	–	51.5
	100.0	**100.0**	100.0	100.0

The PRB assets are $Nil (2010 – $Nil) as the MFDA funds post-retirement benefits on a pay-as-you-go basis.

9. Credit facility

The MFDA has a demand credit facility limited to a maximum of $6,000,000 (2010 – $6,000,000). The credit facility bears an interest rate of prime plus 0.75% per annum (2010 – prime plus 0.75%). The MFDA has granted a general security interest to the bank in connection with this facility. During the years ended June 30, 2011 and 2010 the credit facility was not utilized. The credit line was increased in 2010 to allow for more operating flexibility.

10. Commitments and contingent liability

a) Lease obligations

The MFDA has entered into various operating leases for its office premises and four capital leases for office equipment. The capital leases have implicit interest rates of 0.0%, 6.2%, 7.8%, and 7.9% and expire in October 2011, August 2012, July 2013, and December 2015, respectively. The aggregate future minimum lease payments associated with these four leases is $186,078 which includes interest charges of $23,633.

Operating and capital lease obligations, excluding operating costs for future years and sales tax, are as follows:

	$
2012	1,051,851
2013	1,016,760
2014	912,786
2015	844,506
2016	554,323
Thereafter	–
	4,380,226

b) Guarantee

The MFDA provided a guarantee of the $30 million line of credit granted to the IPC by the bank.

11. Investment income

Investment income is comprised of the following:

	2011	2010
	$	$
Operating fund		
Distribution from money market fund	**38,373**	32,761
Interest from short term T-bill fund	**23,323**	4,165
Bank interest	**23,096**	823
	84,792	37,749
Discretionary fund		
Distribution from money market fund	**9,326**	5,303
	9,326	5,303

12. Risk management of financial instruments of the MFDA

Risk management relates to the understanding and active management of risks associated with invested assets. Investments can be indirectly exposed to interest rate, and market and credit risk. The MFDA manages financial risks by regularly monitoring investment positions, market events and by investing in pooled funds which are diversified across various debt instruments.

Significant risks that are relevant to the MFDA's investments are as follows:

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the MFDA's fixed income investments. The value of the MFDA's investments in a pooled money market fund are not significantly impacted by changes in both nominal and real interest rates as the maturities of the money market instruments are short-term in nature.

Credit risk

Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The MFDA is exposed to credit risk indirectly through its investment in a pooled money market fund and directly through investments in federal treasury bills and notes. Credit risk is managed by the MFDA through dealing with counterparties' financial institutions. As at June 30, 2011 and 2010, the MFDA's investments in money market and fixed income securities are held with Tier 1 banking institutions.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether these changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The MFDA minimizes its exposure to market risk due to its policy of investing in a pooled money market fund and Government of Canada treasury bills and notes. Market risk is considered to be minimal.

Fair value

The fair value of cash, membership fees billed in advance, MFDA Investor Protection Corporation assessments, costs recoverable from the MFDA Investor Protection Corporation, other membership receivables, accounts payable and accrued liabilities, unearned membership fees, membership application deposits, due to the MFDA Investor Protection Corporation, approximates their carrying values due to their short-term nature.

The fair value of investments which include investments in a pooled money market fund and fixed income securities is based on prices provided by the fund manager and on quoted prices from active markets.

13. Funding and management of assets

The MFDA's capital is its unrestricted net assets in its Operating Fund.

The MFDA's objectives when managing its unrestricted net assets are:

- To safeguard the MFDA's ability to continue as a going concern, so it can provide regulation of the mutual fund dealers for the benefit of clients of its Members, and
- To work toward the operating fund reserve targets as set out by the MFDA's Board.

The MFDA bills Members annually to ensure operations are funded. Any excess/deficit is allocated toward the accumulation/drawdown of the operating reserve. The Board in its discretion may apply some or all of the reserve to fund future budget deficits. The current goal for the Operating Fund as set out by the Board is 25% of the operating expense budget. As at June 30, 2011, this target was $7.6 million (June 30, 2010 – $7.2 million) of unrestricted net assets in the Operating Fund. The actual value of the unrestricted net assets is $3,806,248 (2010 – $3,094,693), or 50.1% of the target (2010 – 43.0% of target).

There are no external restrictions on the MFDA's capital.

14. Hearing cost recoveries from the Discretionary Fund

The MFDA Board approved the use of Discretionary Funds for the purpose of paying the third party costs of the Enforcement hearing panels. The amount of third party costs funded by the Discretionary Fund for the year was $749,511 (2010 – $438,511).

Executive Officers

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Chair of the Board

Ed N. Legzdins
Vice-Chair of the Board

Larry M. Waite
President and Chief Executive Officer

Mark T. Gordon
Executive Vice-President

Officers

Shaun Devlin
Vice-President, Enforcement

Karen McGuinness
Vice-President, Compliance

Paul Reid
Director, Finance and Administration

Jason Bennett
Corporate Secretary and Director, Regional Councils

Dale Pratt
Controller

Bernadette Devine
Assistant Corporate Secretary

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Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

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